



National Motor Vehicle
Theft Reduction Council

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Theft and Export of Motor Vehicles and Parts in Australia NMVTRC Submission to Parliamentary Joint Committee on Law Enforcement

Introduction

The National Motor Vehicle Theft Reduction Council (NMVTRC) is Australia's expert body on vehicle crime. Its member organisations include state and territory police services, the general insurance industry, road agencies, vehicle manufacturers, peak motor trades and motorist organisations.

The concerted efforts of the NMVTRC and its stakeholders have contributed substantially to the nation's strong decline in vehicle theft since the early 2000s.

The NMVTRC welcomes the opportunity to make this submission on stolen vehicle export to the Parliamentary Joint Committee on Law Enforcement.

Classifying Vehicle Theft

The NMVTRC classifies vehicle theft events into either of two broad categories depending on the recovered status of the vehicle which in turn reflects offenders' motivation for the theft.

Short Term Theft – represented by vehicles that are stolen for short term use such as enabling the commission of other crimes, transport or joy riding. These vehicles are by definition eventually recovered and while they will be found substantially intact, many will be significantly damaged or destroyed.

Profit Motivated Theft – represented by vehicles that are stolen for profit and are converted via a variety of illegal means into cash. These are vehicles that appear to simply vanish altogether from our roads each year. These unrecovered vehicle volumes are the surrogate indicator of the level of organised criminal activity.

This submission pertains to passenger and light commercial vehicles (PLC) stolen for profit; a proportion of which are potentially subject to illegal export as either scrap metal, separated parts or whole vehicles.

Trends in National Motor Vehicle Theft

Total PLC Theft

Total PLC theft in Australia reached a historical peak in 2001 with 125,704 stolen. This was followed by year on year declines until 2014 when 41,961 thefts occurred; a 66 % reduction compared to 2001 and the lowest number of PLC thefts recorded since the 1970's.

Driven predominately by short term theft, total PLC theft then increased in 2015 and 2016 reaching 46,000 in 2016 before reducing to 42,592 in the 2017 calendar year; 1% above the 2014 historical low.

The NMVTRC is an initiative of all Australian Governments and the Insurance Industry

Profit Motivated Theft

Profit motivated theft also reached a historical peak in 2001 with 14,893 vehicles not recovered; representing a 12% non-recovery rate.

Profit motivated theft also declined year on year until 2012, however for the past five years the number of PLC stolen not recovered has plateaued, averaging 9,550 vehicles per year with variations of no more than 2 - 3%

In 2017, 9,558 vehicle were not recovered; representing a 25% non-recovery rate and a 30% reduction in non-recoveries compared to 2001.

Age and Value of Stolen Not Recovered Vehicles

Analysis of the age and value of vehicles stolen for profit can provide insights into their potential end uses. Table 1 provides the retail value ranges of all stolen not recovered PLC vehicles in 2017.

Table 1.

| Value Range | No. of Thefts | % of Thefts | Est. Value | % of Est. Value |
|---------------------|---------------|-------------|--------------|-----------------|
| \$0 < \$5,000 | 4,258 | 44.5 | \$11,292,366 | 11.5 |
| \$5,000 < \$10,000 | 2,291 | 24.0 | \$15,713,084 | 16.0 |
| \$10,000 < \$20,000 | 1,679 | 17.6 | \$24,317,299 | 24.8 |
| \$20,000 < \$30,000 | 699 | 7.3 | \$17,037,097 | 17.4 |
| \$30,000 < \$50,000 | 460 | 4.8 | \$17,322,515 | 17.7 |
| \$50,000 + | 171 | 1.8 | \$12,454,214 | 12.7 |
| | 9,558 | 100.0 | \$98,136,576 | 100.0 |

The 9,558 vehicles lost in 2017 had a combined retail value of \$98 million at the time of theft. 68.5% of all missing vehicles were valued at less than \$10,000 including 44.5% with a retail value of less than \$5,000 at the time of theft.

The 1.8% of vehicles valued at more than \$50,000 had a combined value of \$12.45 million which exceeded the combined value of the 44.5% low value vehicles which totaled \$11.29 million.

Comparisons with Other OECD Countries

Drawing comparisons from vehicle crime statistics across nations is problematic due to a range of reasons. Not least, counting rules differ significantly depending on the types of vehicles included and differing legal definitions of theft. Some countries derive their statistics from national crime surveys while others, including Australia, derive them from incidents reported to police. Even when conducted in the same jurisdiction, crime survey results often differ significantly from police data.

Notwithstanding these definitional and counting issues, relying on rates of theft as a basis for drawing conclusions on theft performance risks oversimplifying the complex set of inter-related factors that impact on the level of theft in a given jurisdiction. Stolen vehicle disposal methods are heavily influenced by jurisdiction specific factors such as whether land borders exist, the extent and level of compliance with industry regulatory frameworks, the level of sophistication of law enforcement practices and the potential for corruption in government agencies.

As an example, in the United Kingdom, a country with similar social and regulatory frameworks as Australia, more than 50% of the 89,000 stolen vehicles last year were not recovered. Anecdotally, it is widely understood that most of these vehicles were simply transported across the channel for dispersal into any number of Eastern European destination countries. Likewise a significant proportion of stolen vehicles in the US are driven cross the land border with Mexico and to further destinations in South America.

Despite the issues associated with making meaningful overseas comparisons the general trend in other OECD countries is the sustained declines in vehicle theft experienced since the early 2,000's have reversed and vehicle theft is generally on an upward trajectory with most countries experiencing higher percentages of stolen not recovered than Australia.

Stolen Vehicle Disposal Methods in Australia

The NMVTRC summarises stolen vehicle conversion methods into four categories; two of which can be utilised either internally or for export.

Rebirthing and Cloning

This former preferred method for vehicle laundering involves the transfer of a clean identity from a written-off vehicle onto a stolen vehicle of the same make and model. The laundered vehicle is then be sold into the domestic market. This method has been substantially curtailed by the introduction of written-off vehicle regimes which have reduced the pool of available donor vehicles and created significant process barriers that raise the risk of detection.

Dismantled for Parts Distribution

As traditional rebirthing has become more difficult to execute without detection, the dismantling or stripping of major components has become increasingly more attractive for criminals. While theft for dismantling is not necessarily limited to unrecovered vehicles, data on the extent of stripping of recovered vehicles is rarely captured. It is clear however that criminals are now more likely to dispose of a stripped body shell through the scrap metal market rather than simply dumping it as was the case over a decade ago.

Pathways for illicit parts distribution are diverse and within Australia include:

- direct sale thorough commercial and private advertising
- the substitution of legitimate parts in commercial crash repairs and servicing;¹
- exchange for other illicit goods, including drugs.
- upgrading standard model vehicles to higher specification variants
- rebuilding repairable written-off vehicles

¹The difficulty of identifying stolen parts means that legitimate recyclers and repairers may inadvertently purchase them.

In addition to these local pathways, there is an almost insatiable demand for low cost second-hand vehicle parts in emerging economies throughout Asia, the Middle East, and Africa, particularly for high value components such as engines, transmissions, catalytic converters and airbags. All of these areas are potential destination markets for Australian stolen parts distribution.

Conversion to Scrap Metal

In any given year between 600,000 and 700,000 vehicles reach the end of their useful life in Australia. The vast majority of these vehicles find their way into the scrap metal processing chain either within Australia or via the export market.

Industry sources continue to report that demand for vehicles for metal recycling and parts salvage, including for export, continues to grow and that legitimate industry participants are finding it increasingly difficult to compete against rogue operators who have no outward appearance of compliance with regulatory requirements and established industry standards.

There is no clear correlation between scrap prices and vehicle theft numbers. This is because it is just as likely that a decrease in scrap metal prices will lead to more cars being stolen to maintain income levels as it is for high prices leading to more cars being stolen to satisfy demand. This is no doubt however that current end-of-life vehicle (ELV) practices are highly susceptible to manipulation by profit-motivated thieves.

Export of Whole Vehicles

Because of the illicit nature of profit motivated crime, it is not possible to be precise as to the true extent of the export of stolen vehicles in its various forms.

Australia's absence of land borders makes the logistics of stolen whole vehicle export more difficult than simply driving a stolen vehicle to another country and this is a limiting factor for individuals and less sophisticated crime groups who may not have the necessary overseas contacts to facilitate entry into an illegal network overseas.

Additionally, some countries in the region which are substantial distribution hubs for separated parts exported from Australia, have very high import and excise duties on complete cars suitable for resale; potentially making whole vehicle import less profitable than separated parts.

With almost 70% of missing Australian vehicles having a retail value of less than \$10,000 at the time of theft it is very unlikely that many, if any of these vehicles would be exported as whole cars. Likewise cars that were made specifically for the Australian market such as Commodore and Falcon have no viable export market as whole cars (with the exception of New Zealand where reciprocal arrangements exist for the identification of stolen Australian imports). In 2017 there were 710 Commodores and Falcons valued over \$10,000 stolen and not recovered and all of these are likely to have been laundered in Australia with their body shells disposed of through the scrap market.

Four wheel drives and SUV's do have high export demand and there were 660 of these stolen and not recovered in 2017. However, it is evident from police investigations that there is also very high demand for these same vehicles in the illicit domestic market where the potential return is likely to be very much higher than via export.

The NMVTRC is only aware of a small number of investigations over the past five years where whole vehicles have been exported. In most of these cases whole car exports have been found to occur in combination with separated parts. Very few high value luxury vehicles are stolen not recovered so export of these types of vehicles is also very rare.

Given this suite of factors there is a very strong likelihood that only small numbers of stolen cars are exported as whole vehicles.

Determining Estimates for the Illegal Export of Stolen Vehicles and Components in Australia

Due to the very low incidence of detection and prosecution of export related offences, estimates must necessarily be extrapolated from the characteristics of the stolen not recovered vehicles themselves, inferences that can be drawn from the investigations that have taken place and the economic settings of the vehicle recycling and scrap industry.

The NMVTRC's profit motivated theft strategies are underpinned by the assumption that where a viable legitimate market exists, profit motivated criminals will use illegal means to exploit that market.

There is a very active legitimate export market for vehicle parts and vehicle related scrap metal. Legitimate recyclers have for some time observed that many new enterprises have entered the industry in recent years who are buying vehicles exclusively for scrap or parts to meet this export demand.

A stolen vehicle's characteristics (such as age and value, whether it has a world market², insured status and how many other vehicles of the same make and model are stolen) are all potential pointers to its likely fate.

The NMVTRC uses a 'Decision Tree Model' to estimate the most likely end fate of a stolen vehicle based on these characteristics.

Based on analysis of the characteristics of the almost 10,000 PLC vehicles lost nationally in 2017, the NMVTRC's 'Decision Tree' suggests that they are most likely to have been disposed of according to the indicative shares in table 2. Based on all available information, it is the NMVTRC's best estimate that approximately 40 - 50% of the parts and scrap metal categories are subject to export.

Table 2.

| End use | Share % | Trend |
|---------------------------------|---------|----------|
| Dismantled for parts | 44 | Rising |
| Converted to scrap metal | 44 | Rising |
| Exported as whole vehicles | 2 | Steady |
| Re-birthed or cloned | 5 | Reducing |
| Dumped in bushland or waterways | 5 | Steady |

² There are a relatively small number of destination markets for right hand drive vehicles.

Involvement of Serious and Organised Crime Groups

The NMVTRC does not have access to offender specific criminal intelligence that is collected by law enforcement agencies, however it does receive non-classified information that gives insight into the types of criminal enterprises being discovered.

Numerous police investigations across Australia have shown that the most prolific and persistent profit motivated theft activity is conducted in association with enterprises that on the face of it are part of the automotive trade, most usually the vehicle smash repair, recycling and ELV sectors. Ownership of these enterprises is often family based and generally reflects that of the wider small business sector.

There is clear evidence of some organised crime networks operating in the vehicle recycling and scrap industry who are also involved in a range of other serious criminal activity. However, just as importantly, a very significant proportion of the industry is prepared to purchase and receive vehicles on a “no questions asked” basis which facilitates the laundering of stolen vehicles by third parties.

Investigative Responses to Export Related Theft

The NMVTRC continually monitors vehicle theft and laundering methodologies through liaison with state and territory police agencies and industry bodies. It is clear that export related disposal methods present very significant evidentiary and logistical barriers to cost effective investigation. These barriers operate as a disincentive to allocate investigative resources that may be used more effectively elsewhere and include:

- unlike prohibited exports, vehicle parts and scrap are legitimately exported in very large quantities,
- the estimated number of stolen not recovered vehicles subject to export in all of its forms constitutes less than 1% of the approximate 700,000 vehicles that enter the recycling and scrap industry each year,
- most stolen parts shipments are a mixture of stolen and legitimately obtained stock,
- identification of a stolen vehicle or its separated parts after it has been processed for scrap is almost impossible.
- interception of containers, unloading and management of large volumes of parts present very significant financial, logistical and occupational health and safety issues for law enforcement agencies,

It is the NMVTRC’s view that these barriers cannot be overcome simply by tightening export related laws. While investigative responses will always be a part of the mix, far more sustainable barriers to illegal activity in the industry are needed. In short, the problem needs to be addressed at the enterprise level well before the container is loaded.

Industry Reform – the Long Term Solution

Since 2010, the NMVTRC has undertaken a substantial body of work to review the regulatory regimes applicable to the vehicle recycling and scrap industry nationally and assess the extent to which they reflect best practice in modern regulatory design.

As part of this work Victoria was used as a test jurisdiction to audit real-world compliance with existing local laws. An NMVTRC funded multi-agency task force audited more than 430 enterprises identified as dealing in vehicle parts and scrap. Task Force Discover revealed a staggering record of non-compliance across the regulatory spectrum with:

- 7 in 10 either not holding the required authorisation to trade (ie the correct licence or registration) or being non-compliant to some degree with the conditions of their business licence or registration;
- 9 in 10 not complying with written-off vehicle reporting obligations;
- 9 in 10 found to be non-compliant to some extent with OHS and environmental protection regulations;
- 1 in 5 referred for extreme safety breaches deemed likely to cause imminent injury;
- 1 in 10 referred for extreme environmental breaches causing obvious and ongoing serious pollution to soil and waterways.

Many of these entities rely on the ambiguity of scrap metal exemptions to avoid holding either LMCT or second-hand dealer registration and operate almost exclusively on a cash only basis. These transactions are effectively untraceable, which presents barriers to investigating the chain of vehicle acquisition and disposal (and also raising questions about compliance with taxation obligations).

Vehicle thieves operating independently are able to launder stolen vehicles through these enterprises with little or no risk that their personal details will be retained. This creates an almost 'perfect' environment for criminals to ply their trade with little risk of detection or consequence for their conduct. (refer Task Force Discover Report)

The NMVTRC and its law enforcement and industry partners have been calling for the modernisation of scrap related laws across Australia since 2012 to remove ambiguities and gaps, and deal more effectively with enduring non-compliance.

In response, the NSW Government has introduced legislation requiring persons dealing in scrap metal to register with NSW Police. The *Scrap Metal Industry Act* also bans cash transactions and imposes a range of obligations on participants to maintain prescribed records and report suspicious activity.

Other features include—

- a prohibition on buying vehicles with no or obscured identifiers;
- broad powers of police entry without a warrant; and
- flexible penalties for non-compliance including provision for short-term and long-term closure orders.

In May 2017 the Victorian Government announced that it would amend its second-hand dealing laws to adopt some of the key elements of the NSW approach, including a ban on cash payments and trading in de-identified vehicles. Implementation of these laws is expected to occur in coming months.

While the NSW and Victorian reforms represent major steps forward, similar vulnerabilities exist in all states and territories with like reform required to close off the gaps that allow this activity to remain unchallenged.

In the longer term Australia requires the introduction of a full end of life vehicle scheme that aligns theft reduction objectives with reducing the environmental impacts of end-of-life vehicles and improves industry entry and operating standards.

Conclusion

Total vehicle theft in Australia has declined by over 60% since 2001. While profit motivated vehicle theft has declined by around 30% it has remained relatively constant for the past five years.

Behind these trends, criminal methodologies for the illegal conversion of stolen vehicles have changed. As traditional vehicle re-birthing has diminished criminals have turned to separated parts distribution and scrap metal as their preferred disposal methods.

Due to the very low incidence of detection of export related offences it is difficult to be definitive as to the true extent of stolen vehicle export in its various forms. What is evident however, is that a very significant proportion of stolen vehicles are now being laundered through the export of separated parts and vehicle related scrap metal. These practices are facilitated by a very significant level of non-compliance across the industry with existing business licencing and related laws that were not designed to deal with on-going criminal conduct.

There are no quick fixes to either criminal infiltration or poor operating standards in the end of life vehicle sector. The NMVTRC's view is that the most effective outcomes will be derived from a combination of medium term improvements aimed at optimising the efficiency of existing regulatory regimes and in the longer term implementing a full end of life vehicle scheme in Australia.

Enclosures:

Victorian Inter-Agency Task Force Report - Task Force Discover